



# Oklahoma Economic Report™

News and analysis of Oklahoma's economy

A publication of the Office of the State Treasurer • Treasurer Ken Miller, Ph.D.

## Saving college savings

The discussion on how to attract new industries, business and jobs to the state cannot be separated from the challenge of meeting a growing demand for a highly skilled and educated workforce.

The emerging employment trend focuses on STEM jobs – those involving science, technology, engineering and math. While Oklahoma has made significant strides, it still lags behind the nation in the percentage of residents who have attained post-secondary education, especially in the STEM related fields.

Recent census data shows 85 percent of Oklahomans over the age of 25 have

a high school diploma. However, only 22.7 percent of that same demographic have completed a college degree.

The earning power and opportunities available to college graduates far outweigh that of high school graduates.

In 2010, the unemployment rate for those with a bachelor's degree was half that of high school graduates and their lifetime earnings surpass those without any level of post-secondary education by more than \$1 million.

If a policy goal is to produce more college graduates to meet workforce demands, raise per capita incomes

**“The deduction was created not to lower taxes, but to meet the policy objective of higher educational attainment.”**

and increase the quality of life of our citizenry, then policymakers must address the obstacles to achieving that goal. That is why the Oklahoma College Savings Plan tax deduction was signed into law by Governor Frank Keating.

**SEE SAVING PAGE 3**

### Inside

- Treasurer's commentary: Building better budgets
- Maximizing taxpayer dollars
- What they're saying about income tax proposals
- Oklahoma economy expands, but . . .
- Moody's declines credit upgrade
- Appropriations authority set

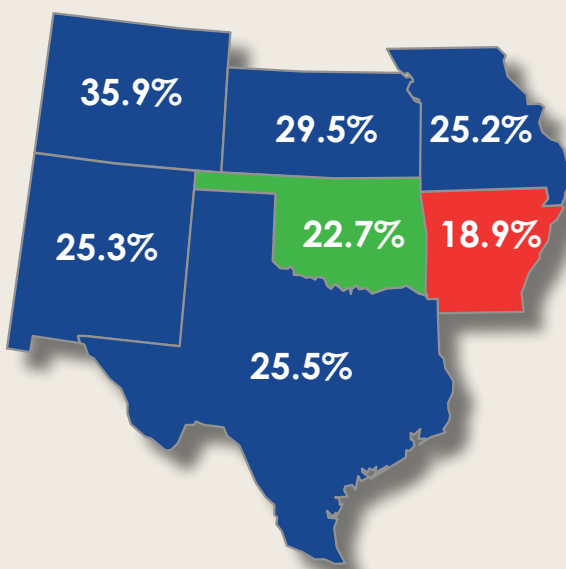
#### Contributors

Regina Birchum, Deputy Treasurer for Policy

#### Editor

Tim Allen, Deputy Treasurer for Communications

### Adults with Bachelor's Degree or more



State	Bachelor's degree or more	Advanced degree or more
Colorado	35.9	12.7
Kansas	29.5	10.2
U.S. Average	27.9	10.3
Texas	25.5	8.5
New Mexico	25.3	10.4
Missouri	25.2	9.5
Oklahoma	22.7	7.4
Arkansas	18.9	6.1

**Above Oklahoma**  
**Below Oklahoma**

Source: U.S. Census Bureau, 2009



## Treasurer's Commentary By Ken Miller, Ph.D.



### Building better budgets

**T**ax cuts are this session's hot topic. On this issue, policymakers have boldly swung the axe with more than two dozen tax-cutting bills introduced this year.

The challenge is to be just as bold in reforming the other side of the equation, since the job of cutting taxes is more difficult when making corresponding cuts in spending.

Those of us tasked with paying the state's bills have more than a passing interest in the outcome of this necessary policy discussion.

Safeguarding the financial health of a state by promoting fiscal responsibility is a chief duty of all state treasurers. This independently elected office provides a solid platform from which to engage a policy dialogue free from the restraints of legislative caucuses and appointing authorities.

Surprisingly, this column's analysis of the FY-12 budget last May caused a stir at 23<sup>rd</sup> and Lincoln, even though many of the points were made nearly verbatim the month prior. Of course, one column was a prospective appeal and the other a retrospective critique.

May this call to build a better budget

be received in the constructive spirit it is offered.

Budget writers should adopt a "pay-as-we-go" approach to reducing taxes. To responsibly finance tax cuts, policymakers should eliminate one dollar of spending or credits for every dollar cut in taxes.

This can be accomplished with fiscal discipline, better spending prioritization and a refined approach to budgeting.

---

**“Surely, the road to big government was paved with good intentions.”**

---

Current incremental budgeting tactics, where prior year funding levels are matched to available revenues, still need to be replaced with long-term strategic plans built around core responsibilities, priorities and outcomes. Then, taxpayer resources can be concentrated into essential public goods and services and eliminated from those which may

be nice, or even noble, but are not responsibilities of the public treasury.

Surely, the road to big government was paved with good intentions. But, policymakers cannot fund well those things which the state is *supposed* to do, by continuing to fund all those things some *want* to do.

Oklahoma must not waste taxpayer resources on agency mission creep, top-heavy bureaucracies, duplicative services, municipal museums, theatres, overpaid lawyers, and ineffective business incentives.

During the interim, much progress was accomplished with regards to state finance. Policymakers can follow through on notable rightsizing efforts by:

- Funding essential functions well and eliminating the rest
- Basing spending on results and outcomes rather than history
- Rejecting the inefficiencies of

**SEE COMMENTARY PAGE 3**



## Commentary

### FROM PAGE 2

duplicative agency, social and legal services

- Eliminating unnecessary special project “pass-through” funding
- Monetizing non-essential state assets to pay down debt

- Eliminating ineffective tax incentives and exemptions

The silver lining of the great recession was forced efficiency gained through innovation, consolidation and tough choices. A leaner public sector has emerged, but there is more to accomplish.

This spring, keep the pruning shears out to gain more efficiencies, but use the axe to cut off some branches too. By chopping the dead wood, our classrooms, roads, bridges and law enforcement can be properly funded and responsible job-creating tax reform can be enacted.

## Saving

### FROM PAGE 1

The deduction was created not to lower taxes, but to meet the policy objective of higher educational attainment.

The cost of college can seem overwhelming for individuals and families. Lawmakers recognized that challenge and launched the savings initiative to encourage families to plan and prepare for the expense of college.

One way to ease the financial impact of higher education is to start saving early and often, and the state can help accomplish that by continuing to provide incentives to do so. Yet, this valuable tool is currently being considered for elimination.

In the past 12 years, Oklahoma families have saved almost half a billion dollars for college through the Oklahoma 529 College Savings Plan. Since the plan was established in April 2000, Oklahoma families have opened more than 46,000 OCSP accounts. And in 2011 alone, OCSP contributions increased almost nine percent over the previous year.

For many, the balances in these accounts are the difference in making college attainable. Each year more families learn of the benefits of participating in the

OCSP and the importance of investing in a child’s future.

Several important factors have combined to make the OCSP a viable option for Oklahoma families to save for college. One key factor can be attributed to the forward-thinking state lawmakers who worked together to create one of the best tax deductions in the nation for college savings.

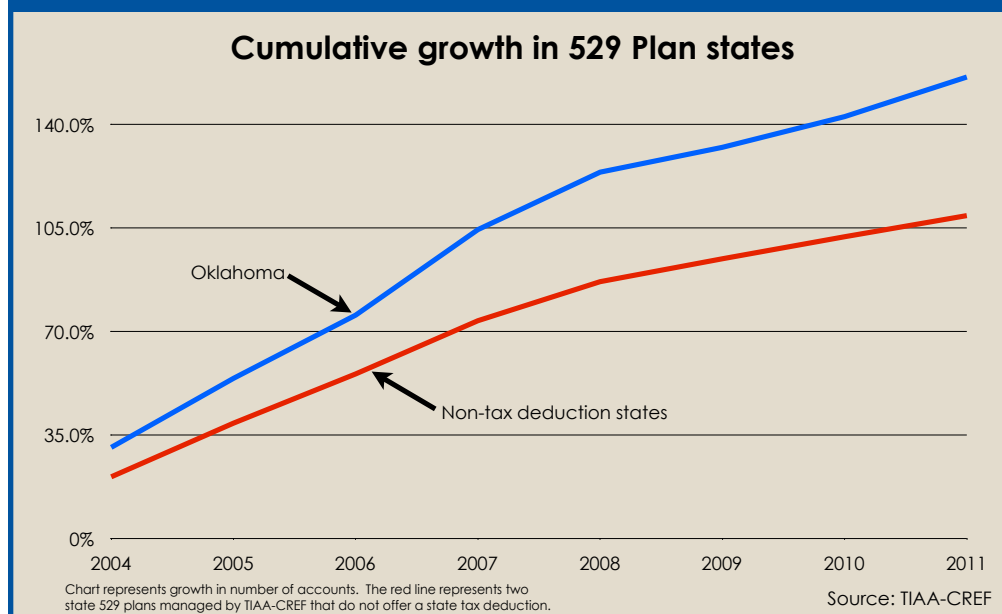
Oklahoma families can deduct up to \$20,000 per year from their state taxable income and single filers may deduct up to \$10,000 per year for contributing to the OCSP. The tax deduction has

attracted many families to the program. So much so that the OCSP has an annual contribution growth rate three to five times higher than the growth rate in non-tax deduction states. And now that the Oklahoma plan has been around long enough for the beneficiaries to graduate, more than 9,000 families have made qualified withdrawals, using more than \$143 million for tuition and other college related expenses.

Many parents realize that saving for their child’s college is one of the largest challenges they face.

**SEE SAVING PAGE 4**

## Impact of Tax Deduction on College Savings





## Saving

### FROM PAGE 3

This plan offers families the option to establish a long-term investment account where they can make contributions to that account over many years and then make qualified withdrawals to pay for college when their child or grandchild is ready.

Continuation of the OCSP incentive proves not only commitment to the future of a child, but the future of our state.

Higher educational attainment is a key factor in Oklahoma's ability to compete for the relocation and expansion of business and the new jobs they bring.

The OCSP is putting higher education

within reach for many Oklahoma families; policymakers should strive to build on this success, not dismantle it.

*The deadline to open or contribute to an OCSP account and take advantage of the tax deduction this year is April 17<sup>th</sup>. Visit [www.ok4savings.org](http://www.ok4savings.org) to find out more about this important investment opportunity.*

## Maximizing taxpayer dollars

Oklahoma may soon become the 45<sup>th</sup> state that allows school districts, municipalities and other local governments the opportunity to earn higher rates of return on their funds within a safe and liquid environment, further stretching scarce resources and reducing the need for additional tax dollars.

Senate Bill 1483, authored by Senator Clark Jolley and Representative Earl Sears, would provide all levels of state government the opportunity to earn greater investment income by pooling resources to realize economies of scale.

Currently, only state agencies are allowed to participate in statutorily

permitted investment options overseen by the Office of the State Treasurer.

Representatives from political subdivisions of the state are seeking the same investment opportunities provided to state agencies, citing frustrations with low returns and few investment options.

Given historically low interest rates and the large amounts of collateral banks must pledge to hold taxpayer funds, commercial banks have recently had difficulty satisfying the needs of political subdivisions.

"Responding to the needs of our cities, towns and school systems by offering them the same services the

state treasurer's office provides to state agencies just makes good sense for taxpayers," said Miller.

**“... pooling resources will help our local governments and schools do more without raising taxes.”**

"I pledged to maximize taxpayer dollars at every opportunity. Enabling tax dollars to grow by pooling resources will help our local governments and schools do more without raising taxes."

SB 1483 would establish a local government investment pool (LGIP) for the working funds of political subdivisions.

Miller explained the buying power of the pool would allow it to get competitive investments, typically

**SEE MAXIMIZE PAGE 5**

### Dollars and Sense

- The Office of the State Treasurer does business with more than 200 local banks across Oklahoma.
- At any given time, between \$250 million and \$400 million of state funds are invested in Oklahoma banks.
- More than \$202 billion in public funds are invested in the 44 state local government investment pools currently in operation.





## Maximize

### FROM PAGE 4

providing better rates of return than the entities could obtain by themselves.

Oklahoma has the advantage of evaluating the plans of 44 states that already have an LGIP in place to develop a program that is right for Oklahoma.

Indiana is one of the most recent states to implement an LGIP. Four years after being signed into law by Governor Mitch Daniels, it now holds about \$600 million. Indiana's program participants include school districts, municipalities, libraries and airport authorities, among others.

With an LGIP, local entities that may not have the staff, resources or expertise to manage investments will be able to utilize the expertise of the treasurer's investment professionals.

While the legislative details are still being developed, Miller said all funds in the investment pool will be subject

### The Treasurer's Investment Policy Mission Statement

*It is the policy of the State Treasurer to invest public funds in a manner which will provide the maximum security with the best investment return, while meeting the daily cash flow demands of the State and conforming to all state statutes governing the investment of public funds. The investment process will be carried out through competition, proper oversights and financial safeguards.*

to the same safeguards provided under statute and the state's investment policy.

"The goal is to enable all public entities to earn competitive returns while providing liquidity and minimizing exposure to credit and market risk," said Miller.

On one key element Miller is certain: participation will be strictly voluntary, providing an alternative investment choice to political subdivisions to help meet their needs.

The Office of the State Treasurer currently provides banking services to all state agencies.

"When we're talking about public dollars, I'm not sure taxpayers make a distinction between agencies, cities and schools when it comes to getting the last drop out of every dollar that comes from their pockets," Miller said.

Treasurer Miller, Sen. Jolley and Rep. Sears are committed to developing a plan that is right for Oklahoma and will work with all relevant stakeholders, including the Oklahoma Banking Commission, Community Bankers Association, Municipal League, Oklahoma Bankers Association and the school districts to accomplish that goal.

## What they're saying about income tax proposals

Will Rogers said that if you don't like the weather in Oklahoma, wait a minute and it will change. Today, he might say the same about economists' opinions on the importance of the income tax as an economic driver.

With more than two dozen legislative proposals introduced this session to either reduce or eventually eliminate the state income tax, there is an abundance of information available from economists, ideological think tanks and lobby organizations.

Some proposals rely heavily on a study put forth by Oklahoma's Council on Public Affairs and an econometrics firm led by Arthur Laffer. [Click here to read the full report.](#)

Other organizations and economists present a differing opinion. Oklahoma Policy Institute offers its analysis of the OCPA/Laffer proposal [here](#).

Dr. Cynthia Rogers, an economics professor at the University of Oklahoma, offers her review [here](#).

And the tax discussion has even caught the attention of national organizations, with groups like the Heartland Institute and Wall Street Journal weighing in.

Read the Heartland Institute's commentary [here](#).

Because analysis by those pursuing an agenda can sometimes make weather forecasts look precise, the above links are provided for those who want to decide for themselves.



## January by the numbers: Gross receipts vs. General Revenue Fund

A comparison of the Treasurer's February 2 Gross Revenue Report and State Finance's February 14 General Revenue Fund (GRF) report illustrates fundamental differences.

January gross receipts totaled \$995.9 million, while the GRF received \$524.9 million or 52.7% of the total. In December, the GRF received 56.5% of the gross.

The GRF has received between 35% and 58% of monthly gross receipts in the past 12 months, underscoring the value of using total collections as a reflection of state economic performance.

From gross receipts in January, the GRF received:

- Personal income tax: 63%
- Corporate income tax: 59.1%
- Sales tax: 45.6%
- Gross production-Gas: 77.2%
- Gross production-Oil: 77.4%
- Motor vehicle tax: 32.2%
- Other sources: 40%

GRF collections for the month topped the official estimate by \$34.6 million or 7.1 percent.

Tribal gaming fees generated \$10.9 million in January.

Insurance premium taxes totaled \$64,843 for the month.

## Oklahoma economy expands, but . . .

Oklahoma's economy showed growth for a 23rd consecutive month in January as all but one revenue stream improved over the same month of the prior year, State Treasurer Ken Miller said as he released the state's monthly gross receipts report.

"Unfortunately, the one source of revenue on the decline – the gross production tax – is a key driver of Oklahoma's economy and could moderate growth going forward until natural gas supply is reduced and prices rebound," Miller said.

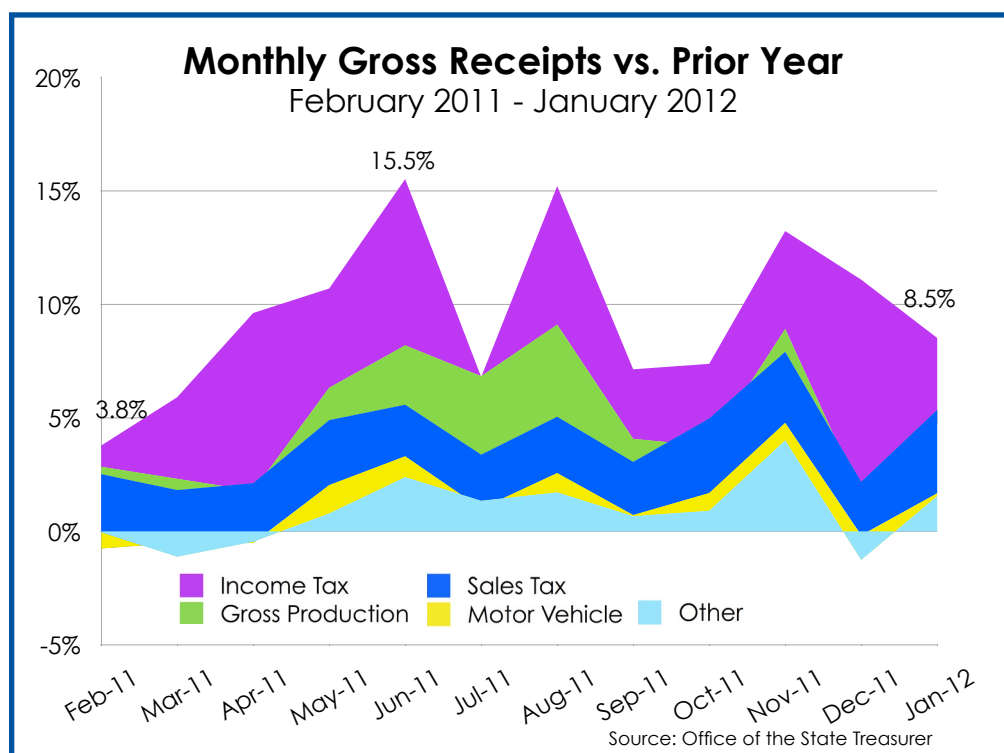
January receipts from all sources grew by 8.5 percent from the prior year and collections for the past 12 months are up by 9.6 percent. Gross production

collections in January fell by 7.4 percent from the prior year.

**“ . . . low natural gas prices follow simple supply-and-demand principles.”**

"Collections from the past 12 months are almost \$1.4 billion higher than when we hit bottom in February 2010. We have recovered 73 percent of the

**SEE REVENUE PAGE 7**





## Revenue

### FROM PAGE 6

revenue lost from the peak of the expansion cycle in December 2008,” he said.

Miller said low natural gas prices follow simple supply-and-demand principles.

“The reduction in gross production tax collections follows a trend from the past few months caused primarily by record supply. The warmest winter in some 100 years is exacerbating the supply glut and as demand drops so do prices,” Miller said. “Most forecasts show prices will remain low for quite some time.”

Miller said January’s economic growth comes primarily from income tax and sales tax collections.

“We see the impact from the last part of the Christmas shopping season with sales tax collections more than 10 percent higher than last January,” he said. Miller explained that January sales tax remittances represent taxable purchases made between mid-December and mid-January.

Starting in January, the state’s top personal income tax rate was reduced to 5.25 percent from 5.5 percent. Even so, collections for the month are 7.5 percent higher than in January of last year.

### More concerns on the horizon

In addition to natural gas price concerns, Miller said local and international developments could impact the state economy in the coming months.

“The announcement from American Airlines that it plans to eliminate one-third of its Tulsa workforce, or 2,100 jobs, is a significant concern,” he said. “With the Tulsa Metro Chamber estimating a \$300 million negative impact on the regional economy, these reductions are troubling not just for the direct effect on the workers and their families, but also the spillover effects on the aggregate economy.”

Oklahoma could also be affected by developments in the European Union, Miller said.

“We continue to watch developments relating to restructuring of the debt in Greece and Italy,” he said. “As part of the world economy, Oklahoma would not be immune to negative developments in Europe.”

## Moody’s declines credit upgrade

In spite of a relatively positive economic outlook in Oklahoma, the analysts at Moody’s decided this month to leave the state’s bond rating unchanged at Aa2.

The rating is the third-highest rating from Moody’s and is one notch lower than Oklahoma’s rating from the two other leading rating agencies, Fitch and Standard & Poors.

While most indicators point toward continued economic growth in the state, concerns expressed by Moody’s revolve around energy price volatility, state revenue structure and unfunded pension liability.

Moody’s again negatively noted in its decision the revenue-raising restrictions of State Question 640. Approved by voters in 1992, the state constitutional amendment requires any tax increases

to have either voter approval or a super-majority vote by both houses of the Legislature.

“**Oklahoma’s rating could go up if it continues to improve its pension systems and practice sound financial management.**”

During a meeting last month with Moody’s in New York, Governor Mary Fallin and State Treasurer Ken Miller expressed their support of the constitutional revenue constrictions.

However, coupled with the uncertainty surrounding reducing or eliminating

the income tax, currently well over one-third of government funding, the state’s restrictions on raising revenue have drawn heightened concerns from Moody’s.

In its assessment, Moody’s positively noted Oklahoma’s improvement in pension liability, healthy balance sheet, fiscal conservatism, and the current strength of the oil and gas industry. Conversely, the volatility of the same industry was cited as one of the challenges facing Oklahoma.

Moody’s said Oklahoma’s rating could go up if it continues to improve its pension systems and practice sound financial management. But the rating agency cautioned that a downgrade could come if policy changes result in a structural funding imbalance.



## Survey says: Improved U.S. economy expected

The National Association for Business Economics (NABE) says the outlook is brighter for the coming year.

NABE predicts moderate growth in the GDP at 2.4 percent with the pace increasing during the second half of the year. The panel of 45 economic

forecasters anticipate average monthly job growth of 170,000 this year.

The group expects unemployment to average 8.3 percent this year, dropping to 7.8 percent in 2013.

NABE anticipates 700,000 housing

starts this year, up 15 percent from 2011.

Consumer spending is expected to remain frugal this year at 2.1 percent this year and 2.3 percent during 2013.

That's a slight improvement from 2011, when economists believe the economy grew 1.6 percent.

## Appropriations authority set

The Oklahoma Legislature will have about \$168 million more to appropriate this session than last, according to revenue collection estimates for Fiscal Year 2013 approved by the State Board of Equalization on February 21.

The estimate totals \$6.6 billion for the fiscal year beginning July 1. The growth is attributable to increases in sales taxes and personal and corporate income taxes.

The official estimate is marginally higher than the preliminary estimate approved in December and reflects 2.6 percent growth from the current fiscal year. The additional expenditure authority of \$47.2 million in state revenue effectively cuts in half the projected budget gap of approximately \$100 million.

Projections for collection during the current fiscal year anticipate a deposit to the Constitutional Reserve Fund, also known as the Rainy Day Fund, of almost \$320 million. The fund currently contains \$249 million.

Estimates for collections on oil and natural gas extraction were lowered by the board at its February meeting primarily due to a larger than expected

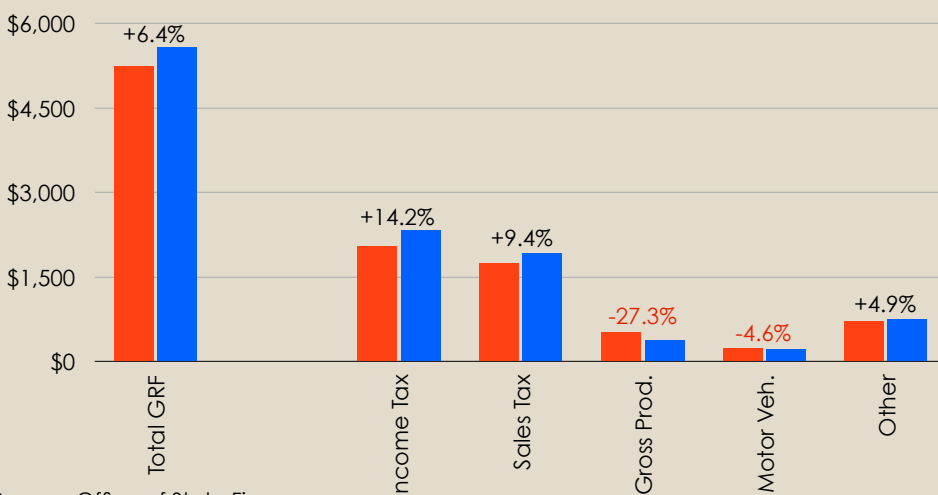
cost of repayment of deferred tax credits suspended during the economic downturn. Originally anticipated to total \$150 million, figures provided by the oil and gas industry show the total cost would range from \$294 million to \$314 million.

The gross production tax estimates were also modified due to changes in natural gas prices. In December, the estimate was based on natural gas price of \$4 per mcf. The February estimates anticipated a price of \$3.64 per mcf.

Treasurer Miller, a member of the equalization board, expressed concerns that the natural gas price estimate might still be too high as prices are currently set at about \$2.60 per mcf and noted a consensus among industry leaders that prices will likely remain flat for remainder of the year.

However, the board unanimously agreed that the state should be able to meet the total certification due to conservative estimates on other revenue sources and the constitutional requirement mandating a five percent cushion.

### General Revenue Fund Estimate FY-12 vs. FY-13

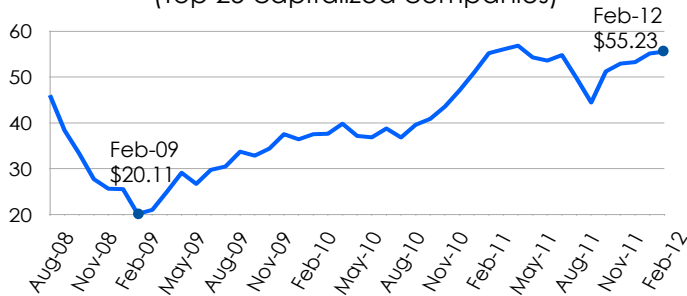




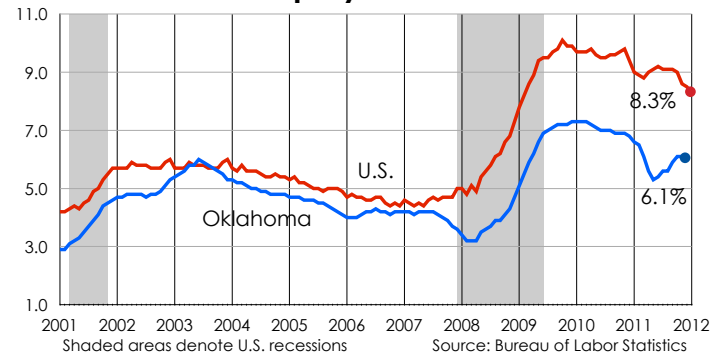


## Economic Indicators

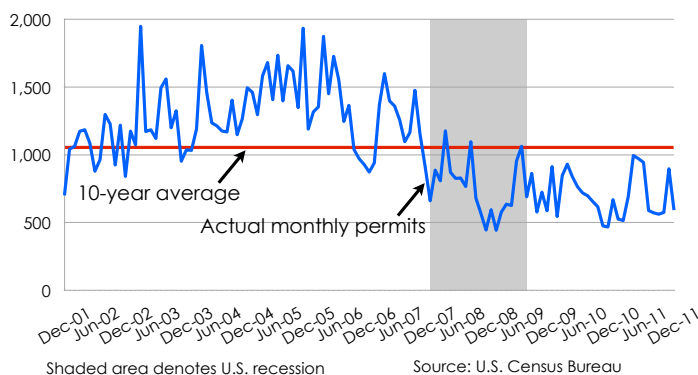
**Oklahoma Stock Index**  
(Top 25 capitalized companies)



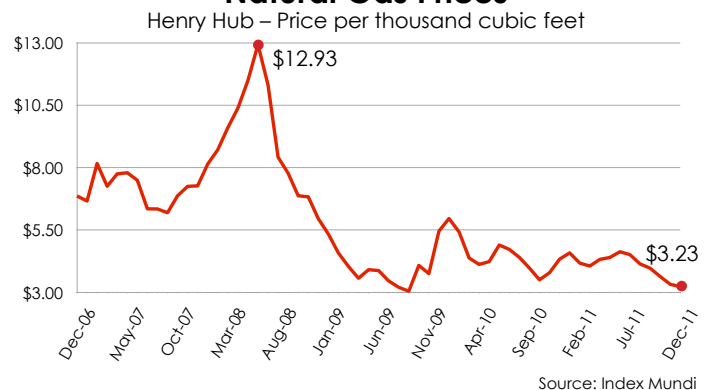
**Unemployment Rate**



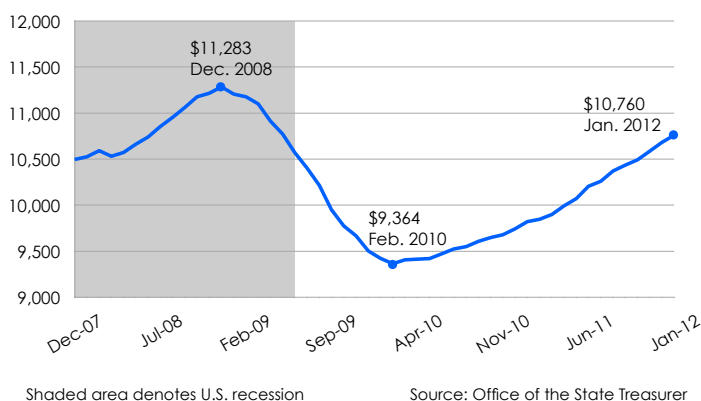
**Oklahoma Residential Building Permits**



**Natural Gas Prices**



**Oklahoma 12-Month Gross Receipts**  
December 2007 - December 2011  
Dollars (in millions)



**Oklahoma Active Rigs vs. Oil Prices**

